

# Briefing Note III

## Plenary Session III

Building an enabling environment for inclusive rural investments

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Policy frameworks for boosting public and private investments in the rural sector

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## Investing in inclusive rural transformation

Innovative approaches to financing

## Plenary Session III

### Building an enabling environment for inclusive rural investments

An “enabling” environment for inclusive rural investments includes the right policy frameworks and appropriate institutions and institutional arrangements, as well as overall good governance and public investment in key public goods. It impacts on the incentives confronting investors at different scales – including small and medium enterprises (SMEs), their expected returns from investment, and the transaction costs and the risks that they face. It influences both directly and indirectly, where, in what, and how individuals and firms will invest. As such, one cannot overestimate the importance of strengthening the current “enabling environment” for rural investment in general, and for inclusive rural investments that contribute strongly to the realization of the 2030 Agenda in particular.

One key aspect of investment activity that is especially affected by the enabling environment is the role that *expectations about the future* play in shaping investors’ decisions. In this regard, government policies and behaviour are especially critical determinants of investors’ decisions and of their willingness to pursue a good balance between short- and long-term return considerations – which is in turn necessary for a shift towards more sustainable rural investments and economies. Transparency, stability and credibility of policy frameworks and decisions, institutional capacity and continuity are essential factors in this regard, but one or more of these are often lacking in the contexts where rural investment gaps are greatest – particularly but not only in fragile contexts.

The enabling environment for investment in the rural sector shares several features with the general enabling environment for investment – notably private investment. These include peace and stability, the rule of law, good governance with accountability and transparency, absence of corruption, adequate infrastructure, educated workforce, clear property rights and enforceable contracts. In addition, boosting rural investment also requires that the enabling environment includes adequate levels of public investment in specific areas such as agricultural research and development, and strong rural-urban linkages underpinned by effective local governance institutions. From a perspective of *inclusive* rural investment, policies and institutions underpinning inclusive access to, use of, and ultimately entitlements over water, land and other natural resources are of paramount importance. In that context, gender-inclusive policy and institutions require systematic attention. Also from the same perspective, policies and

institutions underpinning smallholders' (women's and men's) engagement in agrifood supply chains and markets are also of major importance for more inclusive investment patterns. Finally, it is increasingly recognized that policies and institutions underpinning social inclusion in rural areas and of rural people, including inclusive governance frameworks, effective rural people's organizations and social protection systems, inter alia, all play important roles in enabling more inclusive patterns of rural investment – in agriculture but also in other economic activities.

From a perspective of reducing transaction costs for “doing business” in rural areas, there is need to recognize through targeted policies and programmes the different challenges and capacity of businesses at different sizes to meet current costs, and specific efforts are often warranted to reduce the transaction costs confronting those on the lower end of the investors' ladder, as well as rural women and rural youth. Reducing bureaucratic red tape and facilitating processes such as registration of an enterprise or securing governments permits and licenses are, in many areas, a priority – and often also relatively easy action points. More complex, but no less critical, is the development of efficient and inclusive agrifood markets, with appropriate institutional underpinnings and regulations.

Also from the perspective of reducing transaction costs for all investors, improved public infrastructure and services are often major factors of concern. New technology developments and financing models for rural infrastructure can provide practical avenues for making significant progress in this area in the coming years, including in the context of efforts to meet the SDGs. Such developments – for instance in the domain of ICTs – can also facilitate improved rural penetration of essential public services, including in the area of financial inclusion, as well as in the area of education, extension services, business advisory services and more. For such developments and tools to be harnessed effectively, however, the institutional and policy framework needs to evolve rapidly, on a pace with technological developments.

Finally, but far from least important, the enabling environment should include a strong focus on risk – from systematic efforts to better understand the risks confronting different rural investors, to a range of measures to mitigate risks where possible or to better manage it from different actors' standpoints. Some recent experiences show in this regard the need for holistic approaches, starting from the policy domain, to understanding and tackling risk in the rural and agrifood sectors, which build on strong intersectoral assessments and aim to mainstream resilience considerations into all relevant policies, programmes and sectoral investments.

## Innovative Practice Cluster C1

### Policy frameworks for boosting public and private investments in the rural sector

Along with public investments and institutions, policy frameworks provide one of the pillars of the enabling environment for inclusive rural investment. In the context of the realization of the 2030 Agenda through inclusive and sustainable rural transformation, national governments and the international community confront a broad, multi-sectoral policy agenda, which goes well beyond agriculture, rural and agrifood finance, and even rural investment strictly speaking. Challenges in this agenda cover both the content and the quality of individual policies and issues of policy sequencing and coherence across sectors and levels of governance. Well recognized, but still worth stressing, is the context specific nature of a policy agenda for inclusive rural investments. There are, however, significant commonalities across contexts in terms of general priority policy areas, as follows.

**Investment policies** are a first major area of common concern across countries, and in that context, particularly policies that relate to land and water access and management, the functioning of input and output markets, and contract regulations and implementation mechanisms.

Rural infrastructure, including irrigation networks, transportation and storage systems, energy grids and technologies, and information and communication technologies, are of huge import to private investors. As such **infrastructure policies** need to be aligned with inclusive rural investment objectives, as well as with objectives related to sustainability, inclusion and resilience (notably to climate change).

Open, transparent and predictable agricultural **trade policies** can improve the efficiency of resource allocations both domestically and across borders, thus facilitating scale economies, boosting productivity and *rates of return on investment*. They also have important impacts on patterns of market inclusion for small-scale producers and agrifood SMEs, including in domestic markets.

Sound **tax policy** enables central government and sub-national authorities to raise revenue while attracting further investment from both large and small investors.

The overall **regulatory framework** is crucial for ensuring efficient financial markets that allocate capital to high-return investment projects, of both large and small agricultural investors, including projects whose returns are likely to materialize in the longer term and with significant initial risks or transaction costs.

Strong and well-enforced **environmental and climate-related policies** are essential for inclusive access to natural resources and securing livelihoods, as well as for a shift towards more sustainable use of natural resources, in particular land and water, as well as climate change adaptation and mitigation.

Strong human capital and dynamic agricultural innovation systems are critical to enable more (and more effective) private investment at all scales. **Human resource policies** should support high-quality education and well-functioning extension and advisory services to enhance human capital. Relatedly, **research and innovation policies** should direct more public and private resources towards critical gaps in the current knowledge base related to agrifood production systems, nutrition, environmental sustainability and resilience.

Of extreme importance particularly today are also **employment** (and, even more specifically rural employment) policies, where at issue is not just promoting job creation but also better and more inclusive access to jobs for young people, women and men alike, as well as ensuring quality of jobs and effective regulatory, social protection and collective action frameworks.

*Some key questions for discussion in this area may include:*

- Are we witnessing a **general shift towards more “enabling” policies** for inclusive and sustainable rural investments, and if so, what are the areas where greater policy convergence is emerging, and where is it not emerging yet?
- What are the main obstacles to “good policy” around **access to and management of natural resources** – land and water in particular – in the agrifood sector today?
- To what extent are **research and evidence well connected to policy processes in the rural sector** and what are the challenges and promising experiences or models?
- Does inclusive rural investment in **fragile contexts** require a specific policy agenda, and if so, what are its key elements?
- What are the policy priorities for strengthening the **capacity of rural women** as investors in the agrifood sector?
- Are there general policy priorities for **fostering rural youth employment**, and do we have evidence of successful policy frameworks to address this challenge?
- What is the role of “**soft policy**” and of **private-sector voluntary standards** and approaches in the policy environment for agrifood investments today?

## Innovative Practice Cluster C2

### Institutional arrangements to support investments in the rural sector

Institutions permeate all aspects of the enabling environment for rural investments, as well as investments themselves – from management of land and water to market engagement, from gender relations at the household and community levels to access to finance. Of particular import for this conference are institutional arrangements underpinning relations among actors within agrifood supply chains (as an important part of the rural economy and a key link between rural and urban economies), and those underpinning access to and use of finance (of broader relevance to rural economies beyond the agrifood sector).

In relation to the former, institutional arrangements may include vertical coordination arrangements between actors at different stages of the supply chain, e.g. between farmers as 'out-growers' and a 'hub' farm and/or processing plant, and horizontal coordination between players at the same stage of the value chain, e.g. between farmers coordinating production and supply collectively through a farmer organization. In practice, these often combine in different segments of a given supply chain or in the same agrifood markets. However, different forms of institutional coordination may be better suited to specific chains or types of markets.

In a general sense, experience indicates that a critical role in reducing the transaction costs and risks confronting investors at different scales in the agrifood sector in particular is played by institutions facilitating collective action by farmers and/or rural SMEs. There are a variety of models for such collective action depending on structure of supply chains, type of natural resource or governance challenges, as well as depending on historical and socio-economic context. However, international experiences in this area are growing and so is the literature. This conference provides a timely opportunity to tease out some of the persisting challenges, success stories and enablers of effective collective action on the side of smallholder farmers and rural SMEs, as well as their interplay with other actors within the rural sector.

## Questions for discussion in this area include the following:

What roles can **farmers' and rural SME organizations** most appropriately and effectively play in fostering inclusive rural investments? Are there "best models" to follow in this regard, particularly in terms of institutional mechanisms to support the growth and effective functioning of these organizations?

What sort of institutional arrangements can best strengthen **inclusive land tenure systems**, particularly from a perspective of gender and age inclusion?

Do we have enough evidence to identify a clear set of inclusive and sustainable **business models** in the agrifood sector that can be replicated across countries?

How are the institutional frameworks related to **delivery of rural advisory and information** changing today, where are the challenges, capacity gaps and promising areas of innovation, particularly in terms of inclusion of rural women and youth?

How are the institutional models of **delivery of rural and agrifood finance** changing, and what are the key institutional success factors for rural financial inclusion?

Is the **international institutional environment** around rural investment evolving in a more "enabling" direction for smallholder and rural or agrifood SMEs? What are the key gaps and challenges in that domain? What is the role of the IFIs and other international development partners in this regard?